

Arena Leisure Plc
1 Hay Hill, Berkeley Square
London W1X 7LF

Telephone: 020-7495 2277
Facsimile: 020-7491 7174
www.arenaleisureplc.com

INTERIM REPORT 2000



Directors

Martin E Pope

Chairman

Graham T Parr

Chief executive

Ian R Penrose ACA

Finance director & company secretary

M John Barnes

Non-executive director

Richard J Muddle

Racing director

Brigadier Andrew H Parker Bowles OBE

Non-executive director

Registered office

8 Baker Street
London W1M 1DA

Registered number

857819

Chairman's statement

Introduction

The six months ended 30 September 2000 have seen Arena Leisure make considerable progress towards our long stated aim of becoming a leader in the future development of UK horseracing and the maximisation of revenues from Arena's media rights.

Your company has spent a significant part of this period focusing on a strategy to maximise Arena's future revenues from staging approximately 20% of all UK horseracing fixtures. One key component of this has been our offer to acquire the television and media rights associated with UK horseracing from all 59 racecourses (the "media rights"). After an extensive series of negotiations with UK racing authorities, racecourse groups and their advisers, Arena announced in October 2000 the formation of a joint venture with British Sky Broadcasting (BSkyB) and Channel Four Television (Channel Four), named 'Go Racing' to bid for the media rights.

The partners in Go Racing provide a unique and complementary combination of gaming technology, racing and award-winning broadcasting expertise, together with digital

interactive technology and unrivalled global reach. We are delighted that the joint venture has been selected to continue negotiations on an exclusive basis to conclude suitable contractual arrangements by 17 January 2001.

Financial

The unaudited interim results for the six months ended 30 September 2000 show a 97% increase in turnover to £10,080,000 (1999: £5,114,000). This reflects a full period contribution from Wolverhampton, Southwell, Royal Windsor and Worcester racecourses.

Operating profit from ongoing racecourse activities has increased by 118% to £931,000 (1999: £426,000). A further £125,000 was also realised in the period from a fixture swap, resulting in a total operating profit of £1,056,000 from our racecourse division. In accordance with the prudent accounting policy adopted for the preparation of the annual report at 31 March 2000, all monies invested in new technology and other business development activities are written off as incurred. This in no way diminishes your board's belief in the potential of these projects.

We have invested heavily in this period under review, with gaming technology development, group centre costs and goodwill amortisation totalling £3,059,000, resulting in a total operating loss of £2,003,000. Interest cost has risen to £748,000 from £241,000 in 1999, reflecting the timing of the acquisition of Wolverhampton, Southwell, Royal Windsor and Worcester in the last financial year, together with the increased investment in our gaming technology business. In summary, the retained loss after minority interest for the six months ended 30 September 2000 is £2,735,000 (1999: £161,000 restated loss following the change of accounting policy to write off new technology and other business development costs).

Net debt at 30 September totalled £24,417,000, representing gearing of 83% on net assets amounting to £29,601,000. The basic loss per ordinary share is 1-01p (1999: 0-08p as restated).

The company has changed its year-end to 31 December 2000 to coincide with the racing calendar.

Dividend

The board will not be paying a dividend for the six months ended 30 September 2000. It is the company's priority to continue to invest in the growth of the company's business.

Operations, organisation and people

In order to maximise the operational and managerial effectiveness of your company following a period of significant acquisitions and corporate change, your board has resolved to separate the company's racecourse and technology businesses into two separate divisions. Each division will have its own management and profitability structures and will report directly to the main board.

In this regard, we were pleased to announce recently the appointment of Ian Renton from Racecourse Holdings Trust. Ian, who is currently Clerk of the Course and General Manager at Wincanton and Salisbury racecourses and Clerk of the Course at Aintree, will join Arena's racing division as Director of Racing in April 2001, after officiating at the Grand National.

We have continued to invest in a number of improvements in infrastructure at our racecourses, including a permanent marquee at Windsor, improvement to the racing surface at Worcester, and a major reworking of the all-weather surface at Southwell. As a result, we attracted one of this year's outstanding horses, Giant's Causeway, to train at Southwell prior to its magnificent performance in the Breeders' Cup at Churchill Downs in November.

Developments

As part of our overall business review referred to above, we are developing detailed plans for major improvements to our racecourse facilities. During the next year we will announce a number of capital projects that your board expects will enhance the operational performance and profitability of the company's racecourses. These improvements will play a vital part in making our racecourses more attractive destinations for racegoers, and increasing revenues from the sale of corporate hospitality, conferences, exhibitions and other non-racing opportunities.

We continue to work closely with the planning authorities at each of our racecourses to derive value from surplus land at each location.

Internet & interactive gaming technology

In order to be at the forefront of developments in the industry, and in particular interactive gaming, the company has invested significant time and resources into the development of our internet and interactive gaming technology. The majority of this investment has taken place through the company's wholly owned subsidiary, Arena Online Services, which has been developing a sophisticated and versatile, platform neutral gaming website that, amongst other things, allows individuals to view races, research information on horses and jockeys and place bets on races.

It is expected that this technology will form the central gaming platform for Go Racing, which will appear on all platforms (other than in the licensed betting offices in the UK) associated with the pictures of UK horseracing to be broadcast both nationally and internationally.

Current trading and prospects

Trading in the first nine weeks of the second half of the current year was in line with your board's expectations. The operational and management changes underway will place your company in its strongest position since it was formed as a racecourse business in 1997.

Go Racing remains in an exclusive negotiating position with the Racecourse Association, and expects to announce a positive conclusion to these negotiations by 17 January 2001. We will be sending out detailed information on the proposed transaction to all shareholders, together with its impact on, and opportunities for, Arena Leisure shortly thereafter.

In addition to our joint venture in Go Racing, your board is continuing to look at other opportunities to further develop the group and expects to make further progress during the forthcoming year. We will, of course, be reporting to you on these matters as they proceed.

Your board views the prospects of your company with optimism.



Martin E Pope
Chairman
29 December 2000

Consolidated profit and loss account

| | | Six months ended 30 September 2000 | Six months ended 30 September 1999 as restated Unaudited | Year ended 31 March 2000 |
|--|------|--|--|--------------------------------|
| | Note | Unaudited £000 | £000 | Audited £000 |
| Turnover | | 10,080 | 5,114 | 14,423 |
| Operating (loss)/profit | | (2,003) | 80 | (2,293) |
| Net interest payable | | (748) | (241) | (671) |
| Loss on ordinary activities before and after taxation | 1 | (2,751) | (161) | (2,964) |
| Minority interest | | 16 | – | – |
| Retained loss | | (2,735) | (161) | (2,964) |
| | | | Pence | Pence |
| Basic loss per share | 2 | (1-01) | (0-08) | (1-21) |
| Diluted loss per share | 2 | (1-01) | (0-08) | (1-21) |

Statement of total recognised gains and losses

| | | Six months ended 30 September 1999 as restated Unaudited |
|---|---|--|
| | | £000 |
| Profit for the financial period | | 36 |
| Prior period adjustment | 3 | (197) |
| Total recognised losses since the last interim statement | | (161) |

Consolidated balance sheet

| | At 30 September 2000 Unaudited £000 | At 30 September 1999 as restated Unaudited £000 | At 31 March 2000 Audited £000 |
|--|---|--|---|
| Fixed assets | | | |
| Tangible assets | 52,395 | 39,128 | 51,512 |
| Investments | 345 | 345 | 345 |
| Intangible assets – goodwill | 5,878 | 2,954 | 6,032 |
| | 58,618 | 42,427 | 57,889 |
| Current assets | | | |
| Stock | 160 | 108 | 163 |
| Debtors | 2,668 | 2,031 | 2,672 |
| Cash at bank and in hand | 2,034 | 538 | 1,160 |
| | 4,862 | 2,677 | 3,995 |
| Creditors | | | |
| Amounts falling due within one year | (11,161) | (4,590) | (7,618) |
| Net current liabilities | (6,299) | (1,913) | (3,623) |
| Total assets less current liabilities | 52,319 | 40,514 | 54,266 |
| Creditors | | | |
| Amounts falling due after more than one year | (22,043) | (15,788) | (21,239) |
| Provisions for liabilities and charges | (675) | – | (675) |
| Net assets | 29,601 | 24,726 | 32,352 |
| Capital and reserves | | | |
| Called up share capital | 13,527 | 12,751 | 13,527 |
| Share premium account | 11,186 | 6,300 | 11,186 |
| Merger reserve | 5,417 | – | 5,417 |
| Other reserves | 4,579 | 4,595 | 4,579 |
| Profit and loss account | (5,092) | 1,080 | (2,357) |
| Shareholders' funds | 29,617 | 24,726 | 32,352 |
| Minority interest | (16) | – | – |
| | 29,601 | 24,726 | 32,352 |

Consolidated cash flow statement

| | Note | Six months ended 30 September 2000 Unaudited £000 | Six months ended 30 September 1999 as restated Unaudited £000 | Year ended 31 March 2000 Audited £000 |
|---|------|--|---|---|
| Net cash (outflow)/inflow from operating activities | 4 | (1,084) | 419 | (730) |
| Returns on investment and servicing of finance | | | | |
| Dividends received | | – | – | – |
| Interest paid | | (748) | (241) | (671) |
| | | (748) | (241) | (671) |
| Taxation | | | | |
| Corporation tax paid | | (20) | – | – |
| Capital expenditure and financial investment | | | | |
| Purchase of tangible fixed assets | | (1,609) | (825) | (3,007) |
| Sale of tangible fixed assets | | 72 | 29 | 935 |
| | | (1,537) | (796) | (2,072) |
| Acquisitions and disposals | | | | |
| Acquisition of subsidiaries | | – | (14,214) | (24,181) |
| Net overdraft acquired with subsidiaries | | – | – | (125) |
| Net cash outflow before financing | | (3,389) | (14,832) | (27,779) |
| Financing | | | | |
| Issue of ordinary shares | | – | 7,050 | 14,955 |
| Expenses paid on issue of shares | | – | (400) | (782) |
| Inception of loans | | 1,020 | 9,300 | 18,125 |
| Repayment of loans | | (316) | – | (4,135) |
| Inception of other loans | | – | 39 | – |
| | | 704 | 15,989 | 28,163 |
| (Decrease)/increase in cash | 5 | (2,685) | 1,157 | 384 |

Notes to the accounts

1 The tax charge for the period is nil due to the availability of tax losses.

2 Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the periods. The weighted average number of shares in issue for the six months ended 30 September 2000 is 270,545,173 (six months ended 30 September 1999: 210,347,698). The weighted number of equity shares used for calculation of the diluted earnings per share is 270,545,173 (1999: 211,826,129).

3 The prior period adjustment reflects the impact on the six months to 30 September 1999 of writing off development costs as incurred. This change in accounting policy was adopted for the full year accounts to 31 March 2000.

4 Reconciliation of operating profit to net cash inflow from operating activities

| | Six months ended 30 September 2000 | Six months ended 30 September 1999 as restated Unaudited | Year ended 31 March 2000 Audited |
|--|--|--|---|
| | £000 | £000 | £000 |
| Operating (loss)/profit | (2,003) | 80 | (2,293) |
| Depreciation charges | 649 | 292 | 808 |
| Amortisation of goodwill | 154 | 25 | 119 |
| Loss/(profit) on disposal of tangible fixed assets | 5 | – | (91) |
| Dividends received | – | – | – |
| Decrease/(increase) in stocks | 3 | 5 | (50) |
| Decrease/(increase) in debtors | 4 | 724 | (108) |
| Increase/(decrease) in creditors | 104 | (707) | 210 |
| Increase in provisions | – | – | 675 |
| Net cash (outflow)/inflow from operating activities | (1,084) | 419 | (730) |

Notes to the accounts continued

5 Reconciliation of net cash flow movement to movement in net debt

| | Six months ended 30 September 2000 | Six months ended 30 September 1999 as restated Unaudited | Year ended 31 March 2000 Audited |
|--|--|--|---|
| | Unaudited £000 | Unaudited £000 | Audited £000 |
| (Decrease)/increase in cash in the period | (2,685) | 1,157 | 384 |
| Cash received from inception of loans | (1,020) | (9,339) | (13,990) |
| Cash used to repay loans | 316 | – | – |
| Change in net debt arising from cash flows | (3,389) | (8,182) | (13,606) |
| Loans acquired on acquisition | – | (1,414) | (2,023) |
| Change in net debt during period | (3,389) | (9,596) | (15,629) |
| Opening net debt | (21,028) | (5,399) | (5,399) |
| Closing net debt | (24,417) | (14,995) | (21,028) |

6 There have been no changes to the accounting policies of the group as set out in the 2000 financial statements.

7 The figures for the year ended 31 March 2000 have been extracted from the accounts which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified.